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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

D92-22605

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FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: 03/31/92

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-17232

CAPITAL RESERVE CORPORATION
(Exact name of registrant as specified in its charter)

Colorado	84-0888594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7860 E. Berry Place, Suite 120 Englewood, Colorado 80111
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (303) 220-5030

N/A
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports): Yes X No _____

Indicate by check mark whether the registrant has been subject to the filing requirements for at least the past 90 days:

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

646,044 shares of Class A Common Stock, no par value, as of March 31, 1992

Exhibit index on page N/A

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CAPITAL RESERVE CORPORATION

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CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (Unaudited)	December 31, 1991
ASSETS		
Cash	$ 402,361	$ 343,313
Invested Assets (Notes 2 and 8):		
Fixed maturities	6,677,935	6,947,060
Equity securities	1,334,515	1,076,946
Real estate - net	347,200	350,000
Mortgage loans	584,929	592,445
Policy loans	45,791	37,248
Other long-term investments	24,464	24,464
Short-term investments	370,581	200,905
Total Cash and Invested Assets	9,787,776	9,572,381
Receivables - Related Parties	162,182	162,664
Other Amounts Receivable:		
Due and uncollected premiums	39,795	49,933
Investment income due and accrued	147,698	169,212
Due from agents	133,689	117,214
Stock subscriptions	-	25,000
Other	34,301	30,837
Less allowance for doubtful accounts	(108,230)	(92,830)
Net Amounts Receivable	247,253	299,366
Property and Equipment - Net	106,537	92,038
Deferred Policy Acquisition Costs (Note 8)	2,489,910	2,489,618
Intangible Assets - Net	14,967	15,016
Prepaids and Other Assets	23,919	21,296
Goodwill - Net (Notes 1 and 8)	1,892,282	1,905,409
TOTAL ASSETS	$14,724,826	$14,557,788

Note: The balance sheet at December 31, 1991 is taken from the audited financial statements at that date.

The accompanying notes are an integral part of the consolidated financial statements.

CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONTINUED

	March 31, 1992 (Unaudited)	December 31, 1991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Future policy benefits - Life (Note 8)	$10,947,980	$10,799,995
Coinsurance agreement payable (Note 8)	403,384	450,921
Coinsurance administrative expense reserve (Note 8)	54,410	57,052
Policy claims	57,680	82,948
Other policy liabilities	102,603	101,314
Premium received in advance	91,328	90,239
9-1/4% senior convertible subordinated notes (Note 4)	66,000	66,000
Other liabilities - related parties (Note 7)	559,000	559,000
Accounts payable and accrued expenses	258,191	226,546
Income taxes payable currently	-	5,546
Total Liabilities	12,540,576	12,439,561
Commitments and Contingencies (Note 8)		
Minority Interest in Equity of Subsidiary	277,687	342,100
Stockholders' Equity (Notes 4, 5, 6 and 7)		
Class A common stock, no par value, 20,000,000 shares authorized, 646,044 shares issued and outstanding at March 31, 1992 and December 31, 1991, aggregate liquidation value of $64,604	3,144,102	3,144,102
Class B preferred stock, no par value, 250,000 shares authorized, 250,000 shares issued and outstanding, no liquidating preference	50,000	50,000
Unrealized (depreciation) on equity securities	(90,958)	(148,681)
Retained (deficit)	(1,161,544)	(1,234,257)
	1,941,600	1,811,164
Less Common Stock of Parent Held by Consolidated Subsidiaries (9,600 shares)	(35,037)	(35,037)
TOTAL STOCKHOLDERS' EQUITY	1,906,563	1,776,127
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$14,724,826	$14,557,788

Note: The balance sheet at December 31, 1991 is taken from the audited financial statements at that date.

The accompanying notes are an integral part of the consolidated financial statements.

CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 1992	1991
Premiums - Life and Annuities	$ 265,752	$ 352,023
Net Investment Income	217,556	201,918
Commissions and Other Income	4,175	7,048
Realized Gains	112,019	16,828
Total Income	599,502	577,817
Death and Other Benefits	173,582	142,840
Increase in Future Policy Benefits	100,448	153,547
Amortization of Deferred Policy Acquisition Costs	-	10,546
Commissions	40,900	75,415
General Expenses	299,054	251,274
Taxes, Licenses and Fees	14,996	12,253
Interest Expense	16,827	16,821
Coinsurance Expense	4,512	6,459
Total Benefits and Expenses	650,319	669,155
(Loss) from Operations before Minority Interest and Federal Income Taxes	(50,817)	(91,338)
Minority Interest in Loss of Consolidated Subsidiary	123,530	61,941
Earnings (Loss) from Operations before Federal Income Taxes	72,713	(29,397)
Federal Income Taxes Credit:		
Current	-	-
Deferred	-	-
Net Earnings (Loss)	$ 72,713	$ (29,397)
Net Earnings (Loss) per Common Share:		
Primary	$ .11	$ (.05)
Fully Diluted	$ .09	$ -
Weighted Average Number of Common Shares Outstanding:		
Primary	646,044	646,044
Fully Diluted	846,044	-

The accompanying notes are an integral part of the consolidated statements.

CAPITAL RESERVE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Year Ended December 31, 1991 and The Three Months Ended March 31, 1992

	Class A Common Stock		Class B Preferred Stock		Unrealized (Depreciation) on Equity Securities	Retained (Deficit)
	Shares	Amount	Shares	Amount		
Balance, January 1, 1991	646,044	$3,144,103	250,000	$ 50,000	$ (277,726)	$(1,196,421)
Unrealized investment gain (Note 2)	-	-	-	-	129,045	-
Repurchase and cancellation of partial shares (Note 5)	-	(1)	-	-	-	-
Net (loss) for the year ended December 31, 1991	-	-	-	-	-	(37,836)
Balance, December 31, 1991	646,044	3,144,102	250,000	50,000	(148,681)	(1,234,257)
Unrealized investment gain (Note 2)	-	-	-	-	57,723	-
Net earnings for the three months ended March 31, 1992 (unaudited)	-	-	-	-	-	72,713
Balance, March 31, 1992	646,044	$3,144,102	250,000	$ 50,000	$ (90,958)	$(1,161,544)

CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash Flows from Operating Activities:		
Net earnings (loss)	$ 72,713	$ (29,397)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Minority interest in (loss) of consolidated subsidiary	(123,530)	(61,941)
Depreciation and amortization	24,882	23,542
(Gain) on sale of assets	(112,019)	(16,828)
Provision for loss on doubtful accounts	15,400	-
Decrease in due and uncollected premiums	10,138	21,453
Decrease in accrued investment income	21,514	394
(Increase) decrease in due from agents	(16,475)	2,786
(Increase) in other receivables	(3,464)	(42,260)
(Increase) decrease in deferred policy acquisition costs	(292)	10,546
(Increase)in prepaids and other assets	(2,623)	-
Increase in future policy benefits	147,985	198,116
(Decrease) in coinsurance agreement payable	(47,537)	(44,569)
(Decrease) in coinsurance administrative expense reserve	(2,642)	(2,642)
(Decrease) increase in policy claims	(25,268)	4,831
Increase (decrease) in other policy liabilities	1,289	(6,891)
Increase (decrease) in premium received in advance	1,089	(2,240)
Increase in accounts payable and accrued expenses	31,645	11,310
(Decrease) in income taxes payable currently	(5,546)	-
Total Adjustments	(85,454)	95,607
Net Cash (Used) Provided by Operating Activities	(12,741)	66,210
Cash Flows from Investing Activities:		
Purchase of fixed assets	(23,406)	-
Principal received on mortgage loans	7,516	7,818
Principal received on loans - officers	482	765
Proceeds from (purchase of) fixed maturity and equity security investments	181,299	(515,354)
(Increase) decrease in policy loans	(8,543)	(668)
Net Cash (Used) by Investing Activities	157,348	(507,439)

Continued on Next Page

CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

(Unaudited)

	Three Months Ended March 31,	
	1992	1991
Cash Flows from Financing Activities:		
Payments under obligation under capital lease	$ -	$ (1,818)
Proceeds from issuance of notes	-	500
Proceeds from issuance of Class A common stock by consolidated subsidiary	84,500	180,492
Payments of offering costs of consolidated subsidiary	(383)	-
Payments on debt	-	(4,629)
Net Cash Flows from Financing Activities	84,117	174,545
Net (Decrease) in Cash and Short-Term Investments	228,724	(266,684)
Cash and Short-Term Investments - Beginning of Year	544,218	611,564
Cash and Short-Term Investments - End of Year	$ 772,942	$ 344,880
Cash	$ 402,361	$ 220,520
Short-Term Investments	370,581	124,360
	$ 772,942	$ 344,880
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ -	$ 3,374
Taxes	$ 5,546	$ -

Supplemental Schedule of Noncash Investing and Financing Activities:

During the three months ended March 31, 1991, a subsidiary of the Company escrowed amounts received under a stock offering in the amount of $86,000.

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, the Company considers short-term investments with a maturity of three months or less to be cash equivalents.

The accompanying notes are an integral part of the consolidated financial statements.

CAPITAL RESERVE CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The management of Capital Reserve Corporation believes that all adjustments (consisting only of normal recurring accruals and adjustments) necessary to present fairly the consolidated financial position of Capital Reserve Corporation and subsidiaries as of March 31, 1992 and December 31, 1991, the consolidated results of operations for the three month periods ended March 31, 1992 and 1991, and cash flows for the three-month periods then ended have been included in the accompanying consolidated financial statements.

Principles of Consolidation

The consolidated financial statements at March 31, 1992 and December 31, 1991 include the accounts and operations of Capital Reserve Corporation (CRC) (Company) and its wholly-owned subsidiaries, Capital Reserve Marketing Corporation (CRM), Capital Reserve Investment Corporation (CRI), First West Life Insurance Company (FWLIC), Flexible Benefits, Inc. (FBI), and First West Life Insurance Company of New Mexico (FWNM).

The financial statements also include the accounts and operations of Premier Capital Investment Corporation (Premier) and its subsidiary, Premier Ventures, Inc. (Ventures) and Premier Income Development Corporation (Development). CRC does not own a majority interest in Premier but has significant control over the operations of Premier. All significant intercompany accounts and transactions have been eliminated.

Organization

CRC was organized on August 3, 1982 for the purpose of operating as a financial services holding company. On September 8, 1983, CRM was organized as a wholly-owned subsidiary of CRC to establish an insurance agency to market insurance for CRC and other insurance companies. On December 13, 1985 CRI was organized as a wholly-owned subsidiary of CRC. CRI is currently providing a premium finance program for FWLIC policies. CRC and subsidiaries reported as development stage enterprises prior to April 20, 1988, when CRC completed its public offering and subsequently acquired the life insurance company subsidiary (see Note 7).

Premier was organized on August 11, 1988 for the purpose of conducting business as a financial service holding company with emphasis in the life insurance industry. CRC owns 100% of the Class B common stock of Premier. Premier is offering Class A common stock under a private offering. Premier's Class A common stock issued and outstanding, less applicable offering costs and minority interest in the loss, are reflected in these financial statements as a minority interest in consolidated subsidiary. Premier has two sibsidiaries, Ventures, which was organized on September 17, 1990, in the State of Maryland, and Development, which was organized on August 7, 1991, in the State of Delaware, both for the purpose of conducting

(1) Summary of Significant Accounting Policies, Continued

Organization, Continued

business as a financial service holding company with emphasis in the life insurance business. Ventures and Development are in the development stage and are primarily engaged in raising capital for the formation or acquisition of an insurance company or other financial service business. At March 31, 1992, Ventures had received $246,900 net of refund for capital stock subscribed as part of a $250,000 minimum escrow requirement. This minimum escrow requirement was met in April, 1991, and the escrowed cash was released to Ventures. Subsequent to April, 1991, $3,100 was refunded to one investor.

At March 31, 1992 and December 31, 1991, Development had received $206,000 and $146,500 for capital stock subscribed as part of its offering of its common stock. In February 1992, Development terminated its offering of common stock (See Note 8).

Earnings Loss per Share

Earnings (loss) per share based on shares outstanding was computed by dividing the net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. The fully diluted computation, assuming conversion of the Class B preferred stock (Note 5) and exercise of warrants (Note 6), resulted in anti-dilution for the three months ended March 31, 1991.

Investments

Investments are shown on the following bases:

1. Fixed maturities (bonds and redeemable preferred stocks), other than those with values determined to be impaired, are carried at amortized cost in the consolidated balance sheets because the Company intends to hold them until maturity or such time that disposal will not result in a material adverse impact upon the Company's financial statements. The Company's investment management policies include continual monitoring and evaluation of securities market conditions and circumstances relating to the Company's investment holdings which may result in selection of investments, including fixed maturity issues, for sale prior to maturity.

2. The Company's investments in preferred stocks (other than redeemable preferred stocks) and common stocks (Equity Securities) are carried at market value in the accompanying balance sheets. Net unrealized losses on equity securities are included in stockholders' equity as of March 31, 1992 and December 31, 1991.

(1) Summary of Significant Accounting Policies, Continued

Investments, Continued

3. Mortgage loans on real estate are reported at unpaid principal balances. Management continually reviews loans to determine if allowance for loan loss is necessary. At the balance sheet dates, no allowance has been provided.

4. Real estate acquired through foreclosure is shown at the carrying amount of the related loan plus certain capitalizable costs incurred on the property. Real estate purchased for rental purposes is shown at cost, net of accumulated depreciation.

5. Policy loans are reported at unpaid balances.

6. Other long-term investments and short-term investments are carried at cost, which approximates market.

Gains and losses realized on disposal of investments are recognized using the specific identification method. Unrealized gains or losses on equity securities are credited or charged directly to a separate stockholders' equity account.

Deferred Policy Acquisition Costs

Those costs of acquiring new life insurance business which vary with and are primarily related to the production of new business have been deferred (principally commissions and certain issuance and underwriting costs). These deferred policy acquisition costs are being amortized over the future earnings of the related contract in proportion to the ratio of expected annual earnings to expected total earnings. Such expected earnings are estimated using assumptions consistent with those used in computing the liability for future policy benefits.

Property and Equipment

Property and equipment includes furniture and fixtures, vehicles, computer hardware and software, stated at cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over their estimated useful lives.

Recognition of Premium Revenue and Future Policy Benefits

A benefit reserve fund is held on behalf of a policyholder. No earnings are recognized at the moment a premium is received; the entire premium (less collection and administrative costs) is credited to this liability account. Over the lifetime of the contract, the benefit reserve fund increases with the addition of premium payments and interest and is reduced by deductions for mortality charges, surrenders, and collection and administration expenses. These expenses are the functional expenses provided to the policyholder by the Company.

(1) Summary of Significant Accounting Policies, Continued

Liability for Policy Claims

The liability for unpaid claims and claim adjustment expenses is based on the estimated amount payable on claims reported prior to the balance sheet date which have not yet been settled, claims reported subsequent to the balance sheet date which have been incurred during the period then ended, and an estimate (based on prior experience) of incurred but unreported claims relating to such period.

Intangible Assets

The amortized portion of goodwill, represents the excess of cost over the value of net assets acquired in subsidiary acquisitions accounted for by the purchase method. Goodwill is being amortized on the straight-line basis over a forty-year period.

Organization costs and other intangibles are amortized on the straight-line basis over a five-year period.

Deferred Offering Costs

Deferred offering costs represent amounts incurred for legal, accounting and registration fees in connection with the public offering of the Company or its consolidated subsidiary's common stock. These costs are offset against the proceeds received from the offering.

Income Taxes

Deferred income taxes are provided for timing differences between reporting of income for financial statement purposes and tax purposes. Such differences result primarily from deducting policy acquisition costs as incurred and using different calculations of future policy benefits for tax purposes. Tax on income for the life insurance subsidiaries are reported separately from that of nonlife insurance subsidiaries. The provision for taxes in the consolidated income statements represents the tax for all companies on a combined basis, excluding that attributable to the Premier Companies, who each file separately.

New Accounting Standards

In late 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes.

The effective date of the new standard on accounting for income taxes has been deferred to years beginning after December 15, 1992. This standard was adopted in 1990 by applying the cumulative effect of the change to retained earnings of the earliest period presented.

(2) Investments

The Company's investments in preferred stocks (other than redeemable preferred stocks) and common stocks (Equity Securities) are carried at market value in the accompanying balance sheets at March 31, 1992 and December 31, 1991. The related valuation allowances, titled "Unrealized (Depreciation) on Equity Securities," in the amounts of $(90,958) and $(148,681) are included instockholders' equity at March 31, 1992 and December 31, 1991, respectively. The cost and market value of the Company's consolidated investments in Equity Securities at March 31, 1992 and December 31, 1991 are presented below.

	March 31, 1992	December 31, 1991
Adjusted cost	$ 1,425,473	$1,225,627
Market	(1,334,515)	(1,076,946)
Unrealized loss	$ (90,958)	$ (148,681)

Bonds and redeemable preferred stocks (Fixed Maturities) are carried at amortized cost in the consolidated balance sheets and are not subject to a valuation allowance.

(3) Notes Receivable and Payable - Related Parties

The Company has the following receivables from officers and/or directors of CRC or its consolidated subsidiaries at March 31, 1992 and December 31, 1991.

	March 31, 1992	December 31, 1991
Mortgage notes receivable, interest at 9%, payable annually for five years, thereafter monthly principal and interest payments, secured by real estate	$ 158,286	$ 158,768
Loan receivable - officer of CRC'	3,896	3,896
	$ 162,182	$ 162,664

(4) Senior Convertible Subordinated Notes Payable

In September, 1990, the Company commenced a private placement offering which was completed on November 30, 1990, for the sale of up to $500,000 aggregate principal amount of 9.25% senior convertible subordinated notes due October 31, 1995 (Notes). Each Note shall have a minimum denomination of $5,000. Interest on the Notes is payable semiannually, beginning May 1, 1991. At the option of the holder, such holder may convert all or part of

(4) Senior Convertible Subordinated Notes Payable, Continued

the principal amount of the Note any time through October 31, 1995. The number of shares of the Company's no par common stock issuable upon conversion of a Note shall be determined by dividing the principal amount of such Note to be converted by the applicable common stock conversion price of $9.09 per share, subject to adjustment for dividends, stock splits or the issuance of stock warrants or rights entitling the common stockholders, within 45 days of issuance, to subscribe for or purchase shares of common stock at a price per share less than the current market price per share of common stock, the common stock conversion price shall be proportionately adjusted.

The Company shall have the right at any time during the common stock conversion period to redeem all of the Notes at an initial amount equal to 105% of the then outstanding principal amount, together with interest accrued to the redemption date, and declining 1% annually thereafter. At March 31, 1992 and December 31, 1991, the Company had outstanding notes in the amount of $66,000.

(5) Stockholders' Equity

On September 21, 1990, the Company amended its Articles of Incorporation to provide for the conversion of ten shares of Class A common stock to one share of Class A common stock and to change the Class A common stock and Class B preferred stock from a par value of $.01 per share to no par value per share. All per share amounts have been retroactively restated to reflect this change.

The holders of the shares of Class A common stock and Class B preferred stock are entitled to one vote per share and each class shares equally in any dividends declared. Neither class of stock has preemptive rights. In the event of dissolution or liquidation of the Company, the holders of shares of Class A common stock shall be paid the liquidation price of $.10 per share of Class A common stock before any assets are distributed to the holders of shares of Class B preferred stock. After the holders of Class A common stock have received the liquidation price, any remaining amount shall be distributed pro rata to the holders of shares of both Class A common stock and Class B preferred stock. The holders of shares of Class B preferred stock shall have the right to elect a majority of the directors of the Company. Each share of Class B preferred stock may be converted into eight shares of Class A common stock (with appropriate adjustment of the conversion ratio for any stock splits, stock dividends or recapitalization) (.8 shares as restated) when the Company's life insurance company subsidiary shall have sold or acquired sufficient life insurance so that total annualized premium income equals or exceeds $1,000,000 or the aggregate face amount of its life insurance in force equals or exceeds $50,000,000. During 1991, the life insurance subsidiary exceeded these thresholds.

(6) Public Offering

On September 22, 1986, the Company began a public offering of 6,000 units, consisting of 3,000,000 shares of the Company's Class A common stock and 1,500,000 warrants, at $500.00 per unit. Each unit consists of 50 shares (as restated) of the Company's Class A common stock and a varying number of warrants. Each warrant entitles the holder to purchase one-tenth of one share of the Company's Class A common stock at a price of $1.00 (as restated). The warrants expire five years from the date of the prospectus, but *may be called by the Company at any time after one year at a price of $.10* per warrant (as restated). The warrants expired on September 22, 1991, without any being exercised.

On April 20, 1988, the public offering was closed with 4,002 units being sold consisting of 200,100 shares of Class A common stock and 1,250,250 warrants for $2,001,000 and incurred costs in connection with the public offering of $285,069.

(7) Acquisition of Life Insurance Company

Effective on June 29, 1988, the Company acquired 100% of the outstanding stock of FWFS and its subsidiary, FWLIC, a life insurance company, in exchange for 1,000,000 shares of the Company's Class A common stock with an estimated fair market value of $1.00 per share, $931,304 in cash and a liability to the shareholders of the life insurance company of $459,000. In addition, the Company incurred acquisition costs of $26,585 for legal and actuarial fees. This transaction was accounted for using the purchase method of accounting. The liability to the shareholders of the life insurance company accrues interest at 9%. The due date of the liability to the former shareholders of the life insurance company is contingent upon the life insurance company creating a minimum stated surplus or a sale of certain business assets at a minimum stated amount.

In connection with the acquisition of the life insurance company, the Company agreed to pay the sellers an additional $150,000 if a certain price and marketability of the stock issued in the acquisition is not attained at the end of two years following the date of purchase.

This additional liability was recorded in 1989 by a charge against additional contributed capital. The balance of these liabilities at March 31, 1992 and December 31, 1991 is $559,000.

(8) Commitments and Contingencies

Reinsurance/Coinsurance Agreements

FWLIC reinsures a portion of the insurance it writes with another insurance company. Generally, the maximum amount of insurance retained on any one life is $10,000.

(8) Commitments and Contingencies, Continued

Reinsurance/Coinsurance Agreements, Continued

FWLIC entered into a coinsurance agreement in 1986 and was granted surplus relief on a block of paid up insurance policies. For statutory and tax purposes, the amount of initial reserve credit received under the agreement reduced the liability for future policy benefits and consequently increased net earnings in 1986. Under generally accepted accounting principles, the *reserve credit amounts of $403,384 and $450,922* at March 31, 1992 and December 31, 1991, respectively, are reflected as payables. In addition, the present value of future expenses relating to claim administration of these co-insured, paid-up policies has been set up as reserves in the amounts of $54,410 and $57,052 at March 31, 1992 and December 31, 1991, respectively.

Under this agreement, certain investments having a face value at March 31, 1992 of approximately $2.8 million have been placed in escrow. The interest generated on these investments is reduced by the coinsurance interest paid and any claims paid on the coinsured block of policies. This net result then reduces the amount of reserve credit available, under a quarterly calculation.

The Company is contingently liable for the portion of the policies reinsured and coinsured in the event the reinsuring/coinsuring companies are unable to pay their portion of any resulting claim. Management believes that any liability in this connection is extremely unlikely. FWLIC does not assume insurance from other unaffiliated companies.

Development's Offering of Common Stock

Development, a subsidiary of Premier, offered to sell 500,000 shares of its $.01 par vlaue common stock for $1.00 per share pursuant to an offering memorandum dated August 12, 1991. As of March 31, 1992, Development had sold 206,000 shares of its common stock for $206,000. In February 1992, the Delaware Division of Securities (Division) requested additional information regarding Development's offering of its common stock in the State of Delaware, at which time Development suspended its offering of common stock. On March 11, 1992, the Division issued a cease and desist order against Development to prevent it from selling additional shares of its common stock, alleging certain violations of Delaware's Securities Act (Act). The order also provided for fines of $10,000 for each and every violation and to rescind the offering. In April 1992, the allegations were dropped and the cease and desist order was lifted.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity

The liquidity requirements of the Company are met primarily by cash flows from operations of its life insurance subsidiaries.

Premium and investment income as well as maturities and sales of invested assets provide the primary sources of cash available at the life insurance subsidiaries, while cash is applied by such subsidiaries to pay policy benefits and policy loans, costs of acquiring new business (principally commissions), and operating expenses as well as purchases of new investments. Net cash provided from operating activities of insurance subsidiaries amount to $20,767 in 1992 versus $188,490 in 1991.

It should be noted that payment of dividends from the life insurance subsidiaries for application toward liquidity needs at the parent level (including overhead costs, interest on indebtedness and dividends) may require regulatory approval in cases where such dividends exceed certain guidelines based on regulatory net earnings and regulatory capital and surplus as reported to regulatory authorities on the basis of statutory accounting practices. The life insurance subsidiaries reported regulatory net earnings of $40,009 for the year ended December 31, 1991, and regulatory capital and surplus of $905,122 as of December 31, 1991. Even though no dividends have been paid to the parent, management would consider, among other factors, insurance industry rating agency criteria which are based primarily upon the statutory financial position of life insurance companies, in determining the timing and amount of such dividends. In addition, loans or advances from the life insurance subsidiaries to the parent are limited to the extent that the parent has liquid assets with which to repay the balance and otherwise maintain its account on a current basis.

In addition to the liquidity factors at the subsidiary level previously discussed, cash requirements at the parent company level for interest on indebtedness, debt repayment and overhead are a key factor in the company's overall liquidity situation. For the periods ended March 31, 1992 and 1991, the aforementioned items totaled $122,061 and $151,174, respectively. Operating expenses incurred at the parent company level are reimbursed by means of a management fee charged by the parent to the subsidiary. The management fee paid to the parent for the three months ended March 31, 1992 and 1991 were $134,500 and $100,000, respectively. On a consolidated basis, net cash (used) provided by operating activities amounted to $(12,741) and $66,210 in 1992 and 1991, respectively. Cash flows from investing activities for the periods ended March 31, 1992 and 1991 reflect net sales (purchases) of investments of $181,299 and ($515,354), respectively. The 1992 and 1991 sales of investments resulted in a pretax capital gain of $112,019 and $16,828, respectively. As discussed in Note 1 to the consolidated financial statements, the company's investment management policies include continual evaluation of securities market conditions and circumstances relating to particular investment holdings which may result in selection of fixed maturity or other investments for sale prior to maturity. However, except where impairment of value is determined to have been experienced, it is the Company's intention to hold such investments until maturity or such

time that disposal will not result in a material adverse impact upon the company's financial statements. Based upon current evaluation of the paying status of the Company's fixed maturity investments and anticipated sales of fixed maturity investments and anticipated continuation of the aforementioned investment policies, any sales of fixed maturity investments and retention of certain securities with current market value less than book value are not anticipated to result in a material adverse impact upon investment yield of the life insurance subsidiaries.

At March 31, 1992 and December 31, 1991, 95% of corporate bonds held in the company's bond portfolio are rated as investment grade by Standard and Poor's.

The company's investment in mortgage loans totaled $584,929 and $592,445 at March 31, 1992 and December 31, 1991, respectively. These mortgage loans are performing and are secured by residential property located in the State of Colorado.

Capital Resources

In August, 1990, the company commenced a private placement to sell up to $500,000 of 9.25% senior convertible subordinated notes. These notes have a scheduled maturity on October 31, 1995 and may be converted into common stock at the option of the holder at any time during the period through October 31, 1995. (See Note 4 to the consolidated financial statements.) The proceeds of the notes were used to purchase preferred stock of First West which increased the regulatory capital and surplus of First West Life. As of March 31, 1992, the company had $66,000 in aggregate principal amount of notes outstanding. In 1990, First West organized First West Life Insurance Company of New Mexico (New Mexico Life), a wholly-owned subsidiary, to write insurance in the State of New Mexico. In March, 1991, New Mexico Life received its certificate of authority from the State of New Mexico. New Mexico Life began writing insurance during the second quarter of 1991.

Results of Operations

For the period ended March 31, 1992, premium income decreased $86,271 or 24.5% as compared to 1991. This decrease is due to the mix of the policy type and an improvement in the Company's lapse rate (renewal business). Premiums on the Company's industrial 10 and 20 year pay policies which the Company no longer writes, continue to decline due to the fact that those policies are approaching their respective paid up dates. Premiums from new ordinary life policies declined approximately $98,000 as compared to the corresponding 1991 period, while renewal premium on ordinary life policies increased by approximately $20,000. The improvement in lapse rate is primarily due to the increase in funeral contracts written which historically have produced a higher rate of renewal than other policies written by the Company.

The decline in policy benefits, amortization of deferred policy acquisition costs and commission corresponds with the decline in premium income.

The 1992 and 1991 consolidated financial statements include the results of operations of Premier and its subsidiaries, Ventures and Development. Those companies incurred $125,318 in expenses as compared to $1,788 in revenues for the period

ended March 31, 1992, and $62,279 in expenses as compared to $338 in revenues for the period ended March 31, 1991.

General expenses increased by $47,780 in 1992 as compared to 1991, or 19%. This increase is primarily attributed to the increase in expenses of Premier and its subsidiaries.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities.

Not applicable.

Item 3. Defaults upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits and reports on Form 8-K.

(a) Exhibits. None.

(b) Reports on Form 8-K. None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL RESERVE CORPORATION
(Registrant)

Date: 5-14-92

By: Dennis G. Haley

Dennis G. Haley
Principal Financial, Accounting Officer and Executive Vice President